

2 November 2023

Commissioned research: Boreo – Profitability holding despite top line softness – strong cash flow in Q3

Marketing material commissioned by Boreo

Boreo reported Q3 adjusted EBIT ex-PPA of EUR 2.9m, 3% above our estimate and 16% above Refinitiv consensus. Net sales of EUR 41m declined 5% y/y (-11% on organic basis) and came 6% below our estimate and 8% below consensus. Reported EBIT was EUR 2m, 11% below our estimate. Net sales and adjusted EBIT ex-PPA increased in Technical Trade and declined in Electronics. In Technical Trade, Machinery's construction business was impacted by weak construction environment, while Power business, Pronius, J-Matic and Filterit continued good performance. In Electronics, challenges in SSN continued while other businesses performed well during Q3. In Heavy machines, the company has taken measure to strengthen FNB's operations. Operational cash flow was strong at EUR 4.9m in Q3 (EUR 0.8m a year ago, including discontinued operations), supported by EUR 2.7m working capital release. EPS of EUR 0.22 came below our expectation of EUR 0.38. In line with its guidance policy, the company does not provide short-term financial guidance. The company notes challenging business environment and increases its focus on costs. In addition, Boreo aims to deleverage its balance sheet towards low end of its target of 2-3x net debt/EBITDA (2.4x in Q3). Return on trade working capital continued to improve (30.1% in Q3 after 29% in Q2) driven by lower NWC. Despite adjusted EBIT beat, we expect consensus to trim slightly its estimates for 2023E-25E owing to weaker top line development.

BOREO: DEVIATION TABLE

EURm	Actual	NDA est.	Deviation		Consensus	Deviation		Actual	Actual		
	Q3 2023	Q3 2023E	vs. actual		Q3 2023E	vs. actual		Q2 2023	q/q	Q3 2022	y/y
Sales	41.0	43.8	-2.8	-6%	44.5	-3.5	-8%	42.3	-3%	43.3	-5%
Adj. EBITDA	3.6	4.1	-0.5	-12%	4.0	-0.4	-10%	3.8	-5%	4.0	-10%
Adj. EBITDA margin	8.8%	9.4%	-0.6pp		9.0%	-0.2pp		9.0%	-0.2pp	9.2%	-0.5pp
Adj. EBIT ex-PPA	2.9	2.8	0.1	3%	2.5	0.4	16%	2.5	16%	3.0	-3%
Adj. EBIT ex-PPA margin	7.1%	6.4%	0.7pp		5.6%	1.5pp		5.9%	1.2pp	6.9%	0.1pp
EBIT	2.0	2.3	-0.3	-11%	2.5	-0.5	-20%	1.7	18%	2.4	-17%
EBIT margin	4.9%	5.2%	-0.3pp		5.6%	-0.7pp		4.0%	0.9pp	5.5%	-0.7pp
PTP	1.4	1.7	-0.3	-17%	2.0	-0.6	-30%	1.1	27%	2.6	-46%
EPS, EUR	0.22	0.38	-0.16	-43%	0.40	-0.18	-45%	0.18	24%	0.90	-76%

Business areas, EURm**Net sales**

Electronics	16.3	17.6	-1.3	-7%				15.1	8%	17.3	-6%
Technical Trade	14.9	14.0	0.9	7%				15.5	-4%	13.5	10%
Heavy Machines	8.6	10.9	-2.3	-21%				10.5	-18%	11.3	-24%
Other Operations	1.2	1.3	-0.1	-8%				1.2	0%	1.2	0%

Adj. EBIT ex-PPA

Electronics	1.0	1.4	-0.4	-27%				1.0	0%	1.3	-23%
Technical Trade	1.9	1.4	0.5	32%				1.6	19%	1.7	12%
Heavy Machines	0.3	0.6	-0.3	-46%				0.2	50%	0.3	0%
Other Operations	(0.3)	(0.6)	0.3	-47%				(0.3)	0%	(0.3)	0%

Adj. EBIT ex-PPA %

Electronics	6.1%	7.8%	-1.7pp					6.6%	-0.5pp	7.5%	-1.4pp
Technical Trade	12.8%	10.4%	2.4pp					10.3%	2.4pp	12.6%	0.2pp
Heavy Machines	3.5%	5.1%	-1.6pp					1.9%	1.6pp	2.7%	0.8pp
Other Operations	-25.0%	-43.8%	18.8pp					-25.0%	0.0pp	-25.0%	0.0pp

Source: Company data, Refinitiv and Nordea estimates

CEO Kari Nerg and CFO Aku Rumpunen will present the Q3 report in a webcast at 11:00 EET.

Link to webcast: <https://boreo.videosync.fi/2023-q3-results>**SUMMARY TABLE - KEY FIGURES**

EURm	2020	2021	2022	2023E	2024E	2025E
Total revenue	98	147	160	173	180	190
EBITDA (adj)	8	12	11	13	15	16
EBIT (adj)	6	9	7	8	10	13
EBIT (adj) margin	5.9%	6.0%	4.6%	4.6%	5.5%	7.0%
EPS (adj, EUR)	1.53	2.25	-0.13	1.14	1.83	3.38
EPS (adj) growth	69.3%	47.0%	-105.7%	986.2%	61.1%	84.1%
DPS (ord, EUR)	0.40	0.42	0.44	0.46	0.50	0.60
EV/Sales	1.0	1.3	0.8	0.7	0.6	0.7
EV/EBIT (adj)	16.5	21.7	17.7	14.2	11.1	9.4
P/E (adj)	19.2	26.3	n.m.	23.6	14.7	8.0
P/BV	4.8	7.1	2.4	1.7	1.6	2.2
Dividend yield (ord)	1.4%	0.7%	1.2%	1.7%	1.9%	2.2%
FCF Yield bef A&D, lease adj	9.6%	-0.3%	0.3%	6.5%	11.5%	9.3%
Net debt	20	38	31	39	34	50
Net debt/EBITDA	3.2	3.5	2.9	3.0	2.3	3.1
ROIC after tax	19.2%	14.4%	8.5%	7.9%	9.4%	12.4%

Source: Company data and Nordea estimates

Completion date: 02/11/2023 08:56:03 CET**Nordea analyst: Joni Sandvall****Joni Sandvall**

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